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PRESENTATION

Operator

Good afternoon. My name is Mike, and I will be your conference operator today. At this time, I would like to welcome everyone to the Electronic Arts Q3 2019 Earnings Conference Call.

Mr. Chris Evenden, VP of Investor Relations, you may begin your conference.

Chris Evenden - *Electronic Arts Inc. - VP of IR*

Thanks, Mike. Welcome to EA's Third Quarter Fiscal 2019 Earnings Call. With me on the call today are: Andrew Wilson, our CEO; and Blake Jorgensen, our COO and CFO.

Please note that our SEC filings and our earnings release are available at ir.ea.com. In addition, we have posted earnings slides to accompany our prepared remarks. Lastly, after the call, we will post our prepared remarks, an audio replay of this call, our financial model and a transcript. With regard to our calendar, our Q4 fiscal 2019 earnings call is scheduled for Tuesday, May 7, 2019.

This presentation and our comments include forward-looking statements regarding future events and the future financial performance of the company. Actual events and results may differ materially from our expectations. We refer you to our most recent Form 10-Q for a discussion of risks that could cause actual results to differ materially from those discussed today. Electronic Arts makes these statements as of today, February 5, 2019, and disclaims any duty to update them.

During this call, the financial metrics, with the exception of free cash flow, will be presented on a GAAP basis. All comparisons made in the course of this call are against the same period in the prior year, unless otherwise stated. Note that our results reflect our adoption of ASC 606 as of the beginning of fiscal 2019. And for more information on this change, please see the accounting FAQ we have posted on our IR website.

Now I'll turn the call over to Andrew.

Andrew Wilson - *Electronic Arts Inc. - CEO & Director*

Thanks, Chris. The gaming industry continued to grow through the holiday quarter in our fiscal year 2019. It's been a highly competitive year with lots of great new content for players around the world.

In the face of this competition, we had significant challenges in Q3 and did not perform up to our expectations. We expect these challenges will continue to impact our performance in Q4, which has led us to lower our full fiscal year net revenue guidance today.

Let me first discuss our challenges and the adjustments we are making to address them, then I'll discuss the opportunities ahead. We'll start with Battlefield V. We made some decisions on launch timing and key features of this game that we felt would improve the quality of the experience. For context, Battlefield V was designed from the beginning to offer a long-term live service. In August, we determined that we needed some more time for final adjustments to the core game play to fully deliver on the potential of the live service so we moved the ship date in November to accommodate those goals. Unfortunately, the later release date moved the game launch deeper into a competitive holiday window where heavy price discounting was a big factor. In addition, we also made the decision to prioritize other features, including a single-player experience at launch over a Battle Royale mode. This year, Battle Royale modes became incredibly popular in shooter games. As a result of these decisions, we struggled to gain momentum and did not meet our sales expectations for the quarter.

Importantly though, the Battlefield franchise is strong. More than 27 million fans have played our Battlefield games this fiscal year-to-date. Our focus is now on bringing more of these players into Battlefield V with new modes and great content through our live service. In March, we'll kick off our third chapter of updates in this game which will include, amongst other things, Firestorm Battle Royale. This will be a unique take on the Royale genre, integrating unique Battlefield characteristics, including strategic sword game play, varying objectives and vehicles. We're responding to our players in Battlefield V by delivering the content they want most into the live service on a cadence that will fuel the community with fresh, new experiences for many months to come.

Next I'll touch on mobile. While the mobile market is strong and expected to continue growing nearly 10% next year, the dynamics have become increasingly challenging. The data we have indicates that the average age of top 20 titles is greater than 3 years old and that it's harder than ever for new games to break through. With our latest release, Command & Conquer: Rivals, we had positive soft launch results. But since global release, it is not driven in stores organically at the levels we anticipated. We are now working to bring more players into that game. We continue to be committed to mobile. We believe in the value of our franchise in the marketplace, and we are doubling down on these games through live services. We are also putting our best teams on bigger projects and exploring additional ways to create and iterate quickly. We have always focused on profitability in mobile, and we are evolving to better position ourselves for growth in the future.

Our performance in Asia was also not as strong as expected through Q3. In Korea, FIFA Online 4 is performing well, with monthly average plays exceeding the trajectory of FIFA Online 3 in a similar period from launch. Given nuances in the Chinese market, our transition of FIFA Online 4 has been slower than anticipated, and FIFA Mobile is still in the early stages after launching in the market. We have long-term strategies with robust content plan for both games that, combined with the popularity and growth of soccer in the region, we believe will fuel further growth.

FIFA continues to be a growing business for us. In fact, we saw more units of FIFA last calendar year than any year before, and we welcomed 4 million new players into our FIFA ecosystem on console and PC. Our plan for FIFA 18 were aggressive in a World Cup year, and we ended up selling an additional 2.4 million units of FIFA 18 throughout the year with the intention of converting those plays to FIFA 19 when it launched. The conversion has been slower than planned, leading to unit sales that were effectively flat year-over-year.

In a year where there was intense competition and many iterative titles were challenged, FIFA 19 still became the best-selling console game in Europe last calendar year. Even on a flat year-over-year installed base, FIFA Ultimate Team has performed well, and it accelerated in January with our most successful Team of the Year event ever.

Our competitive gaming programs are also adding strength to the franchise, with our expanded FIFA Global Series already garnering 80% more total minutes watched compared to last fiscal year, along with new sponsor engagements and partnerships with industry leaders, such as Ealy, Gfinity and PGL. We continue to be very positive on the strength of FIFA and FIFA Ultimate Team around the world.

We made some calculated decisions that did not work as planned in Q3. And we did not execute well in other areas of our business. Against the backdrop of a very competitive quarter, the combination of those factors led to our underperformance. While we are disappointed with the results, we understand where our challenges are, and we are deeply focused on applying the strength of our company to address them going forward.

We are a learning organization. Over the last 6 months, we've made organizational changes to shape our teams against our priorities for the future. We've made operational changes to better position ourselves to effectively drive live services and serve our player communities. We've made creative changes, including the formation of a creative council to strengthen our creative decision-making. And we will continue to make refinements in each of these dimensions as we focus sharply on execution across the company. The future of the industry is strong and so is the future of Electronic Arts.

As you saw yesterday, we just launched Apex Legends, a new free-to-play Battle Royale game from Respawn. This is very exciting for us. Built from the ground up to bring innovation to the genre, there are so many unique elements of Apex Legends from the characters to the game play mechanics to the team play construct. To compete in the highly competitive Battle Royale space, we also deliberately chose a different go-to-market strategy to surprise and delight players around the world. The launch yesterday was EA's biggest reveal ever by peak and current viewers, and it quickly became the #1 game on Twitch. The Respawn team has a strong plan for Apex Legends that will engage fans for a long time to come. And as the live service evolves, Respawn also plans to launch a premium game this year that is a new twist on the Titanfall universe. More to come on that in the months ahead.

Also this month, we will launch Anthem, BioWare's epic new game. Our teams at BioWare have put so much passion into crafting every aspect of this massive new IP. Millions of fans play more than 40 million hours of Anthem in our recent demos, and we are very pleased to see the excitement in retail and digital channels reaching higher-than-expected levels. Anthem has been on dozens of lists for the most anticipated games of 2019, and the full game launches on February 22.

Looking ahead to FY '20, we have a large slate of new games, beginning with some big new additions in our next FIFA title. There was great energy and excitement from NFL fans throughout this past season, and we're excited for our plans with the Madden NFL franchise. We'll continue innovating and driving our NHL and NBA Live games deep into the fabric of their respective sports. We'll have a new game for our Need for Speed fans and a new title in our PvZ shooter franchise on console and PC.

In addition to Apex Legends, another team at Respawn is set to deliver Star Wars Jedi: Fallen Order this fall. This game's development is led by the former director of the God of War series with a team of veterans from some of the industry's biggest action adventure games. It's very far along in development. And having spent time with it recently myself, it plays spectacularly well. This game truly captures the fantasy of becoming a Jedi, and we will have a lot more to share soon.

In FY '20, we're also set to deliver more content and new experiences in more live services than ever before. We're excited to continue building on the success of our Ultimate Team modes for EA SPORTS.

Our Sims franchise continues to thrive in live services. Our Sims 4 community grew by 4.8 million unique players last year, our monthly active players continued to grow year-over-year and we just crossed $1 billion in lifetime revenue for the game. We continue to have strong expectations for The Sims going forward. And FY '20, we are bringing at least 20 new content drops and expansion packs to our Sims games across PC, mobile and console.

We'll continue to support Battlefield V and Anthem throughout the year, and Apex Legends will bring seasons of new content and much more to its players. With the breadth and depth of our live service offerings, we are focusing on delivering more of the content that resonates with our communities to drive additional upside opportunities in FY '20. This is a challenging second half of our FY '19. We are making critical adjustments to sharpen our focus on execution and to assure we are well positioned to deliver more great games and services to our players.

Now I'll hand the call over to Blake.

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

Thanks, Andrew. When we guided the year last May, we had high expectations for Battlefield V, we expected to grow our existing mobile titles and had anticipated launching 2 new mobile games. As Andrew outlined, it didn't play out as we planned. We decided to move Battlefield V into a difficult launch window against heavily discounted competition. And on mobile, we moved one of our titles out of the year. C&C: Rivals is also ramping slowly, and we made changes to Madden Mobile that reduced monetization. On top of this, unprecedented competition for players' time impacted the growth of our titles. However, the performance of FIFA and FIFA Ultimate Team was a bright spot, with the franchise proving extremely resilient in the face of intense competition. In addition, we set a new third quarter record for operating cash flow over the last 12 months.

I've decided to give additional details this quarter about which parts of our business are and are not performing up to our expectations. I'll report our results on a GAAP basis, then use our operational measure of net bookings to discuss the dynamics of the business. To compare this quarter's results to historically reported non-GAAP measures, please refer to the relevant tabs in our downloadable financial model.

EA's net revenue was $1.289 billion, below our guidance by $86 million. Operating expenses were $634 million, $96 million lower than our guidance, driven by variable compensation and related expenses and some phasing of marketing expenses. GAAP operating income was $242 million and resulted in an earnings per share of $0.86, $0.25 better than our guidance. Operating cash flow for the quarter was $954 million, up $105 million from last year. Operating cash flow for the trailing 12 months was $1.563 billion. Capital expenditures for the quarter were $21 million, resulting in a free cash flow of $933 million. See our earnings slides for further cash flow information.

During the quarter, we repurchased 3.2 million shares at a cost of $292 million, leaving $1.59 billion in our 2-year $2.4 billion buyback program we began last May. Our cash and short-term investments at the end of the quarter were $5.2 billion. Life-to-date, FIFA 19 full game unit sales are roughly flat to FIFA 18 and slightly below our expectations. We believe the underperformance was driven by the intense competition throughout the year. It is possible the success of World Cup promotions pulled FIFA 19 sales into FIFA 18 given that, during calendar 2018, we sold more copies of FIFA than ever before. Fiscal year-to-date sales of FIFA 19 are approximately 20 million units, and we sold over 3 million units of FIFA 18 this fiscal year, too. And as Andrew said, FIFA 19 was the best-selling console game in Europe in the calendar 2018.

FIFA Ultimate Team delivered its best quarter ever, up 6% from last year's Q3, which was an all-time high due to the addition of esports. Although fewer people than expected have bought FIFA 19, average spend per player is up over last year's title. Madden Ultimate Team is up double digits life-to-date.

As Andrew discussed, the desire to make changes to Battlefield V led us to move its launch into a more difficult window, and prioritizing the single-player campaign over Battle Royale also hurt sales. As a result, we sold 7.3 million units in the quarter, about 1 million less than we comprehended by our Q3 guidance. However, people play Battlefield for a long time, and we're in this for the long haul. Battlefield 1 still has nearly 4 million active users. And Battlefield 4 has nearly 2 million, more than 5 years after its launch. When we released the Season 2 content in January, Battlefield V became the largest Battlefield game ever. And we have an exciting live services planned ahead for us, with the launch of Firestorm Battle Royale game mode in March and continuing through fiscal 2020. The live services content presents an opportunity for upside as we look to sell more copies of the base game and players invest in cosmetic changes to their characters. Battlefield V drove fewer Origin Access Premier subscriptions than we had hoped, given the difficult launch of the game. We remain committed to subscriptions, and we look forward to attracting further subscribers with the launch of Anthem. We are using the launches this year to help us drive the evolution of this service.

We entered the year expecting strong mobile growth. But a combination of a delayed game and underperformance means the business will end the year down. The mobile market is characterized by a small number of highly successful games together with a long tail of much smaller games,

many of which merely break even or actually lose money. Our focus has been and continues to be on building profitable franchises. Our business continues to be profitable, but growth is unpredictable in such a market. We continually review how we might improve the performance of this business.

We launched Apex Legends, a Battle Royale experience in the Titanfall universe yesterday. It's free-to-play, but in a day -- 1 day is still way too early to talk about the power of the business model. The Respawn team has executed well to deliver an innovative take on the Battle Royale genre. They've enthusiastically driven the creation of one of the few large-scale fleet of free-to-play experiences on console, and we have a great live service to come.

Digital net bookings were $1.199 billion, down 3% on the year-ago period. Strong digital sales of Battlefield V compared to Star Wars Battlefront II, which were more than offset by the decline in our mobile business and the extra game launch in last year's third quarter. Digital net bookings now represent 74% of our business on a trailing 12 month basis, a new record. This compares to 67% in the prior year.

Live services net bookings were down 0.4% to $784 million. FIFA Ultimate Team grew but did not offset the decline in Battlefield 1 live services and FIFA Online in Asia. Mobile delivered net bookings of $142 million, down 22% year-on-year with declines across our portfolio. We had made some changes to Madden Mobile in order to broaden its appeal, but monetization fail -- fell. We continue to work to turn this around.

Full game PC and console downloads generated net bookings of $273 million, 5% higher than last year. Growth was driven by the ongoing shift to digital, in particular for FIFA 19, for which sell-through is 27% digital life-to-date compared to 21% for FIFA 18 last year. Overall, 47% of our units sold were through digital rather than physical, measured on Xbox One and PlayStation 4 over the last 12 months. This compares to just 37% a year ago. Because Battlefield V skews much more digital than Star Wars Battlefront II, we continue to model underlying annual growth of about 5 percentage points.

Turning to guidance. Our expectation for full year GAAP net revenue is $4.875 billion and diluted earnings per share of $3.20. We expect operating cash flow of about $1.35 billion. We continue to anticipate capital expenditures of around $125 million, which would deliver free cash flow of about $1.225 billion. We now anticipate fiscal '19 net bookings of $4.75 billion. This is below our previous expectations, based primarily on performance to date of Battlefield V, Mobile and Origin Access. We model Anthem units in the 5 million to 6 million unit range and do not model material net bookings for Apex Legends in the quarter. For the fourth quarter, we expect net revenues of $1.163 billion, cost of revenue to be $265 million and operating expenses of $715 million. OpEx is up year-on-year primarily due to the launches of 2 major titles as opposed to 1 last year and increased investment in R&D. This results in diluted earnings per share of $0.56 for the fourth quarter, using the diluted share count of 303 million. We anticipate net bookings for the quarter to be $1.17 billion. This is slightly down year-on-year, with Anthem offset by broad-based weaknesses.

Our experience this quarter has reset our expectations for growth this year and next. And that means we must make some hard choices about investments. Nevertheless, this quarter has shown that we will continue to be a business with great brands that enable us to generate strong cash flow for investors.

In fiscal 2020, we will continue to innovate in our sports titles with growth from them expected to be in the range of flat to up 5%. In particular, FIFA 20 will include some significant new features, and we plan for both FIFA and FIFA Ultimate Team to grow over the year. We will drive the Titanfall universe forward with Apex Legends live service and a premium game later in the year. We will launch Star Wars Jedi: Fallen Order, a new Plants vs. Zombies shooter and a new Need for Speed. We have modest expectations for Battlefield and Anthem live services given that they are not yet proven. We continue to refine mobile live services and work on new games. Overall, we expect net bookings to grow low single digits and the underlying profitability to grow in line with that as well. We will provide further details and a P&L forecast when we report in May.

To sum it up, FIFA stands out as a robust franchise through a tumultuous year in the video game industry. We are making changes to improve execution, and we're refocusing R&D investments to projects with near- to medium-term returns without impacting our long-term vision. Meanwhile, we're looking forward to giving Star Wars fans the opportunity to live the life of a Jedi in Star Wars Jedi: Fallen Order, to continue to innovate our ever popular PvZ brand and to deliver another action-packed installment of Need for Speed.

And now I'll hand the call back to Andrew to offer some final thoughts.

Andrew Wilson - *Electronic Arts Inc. - CEO & Director*

Thanks, Blake. The gaming industry is strong, and it continues to grow. New genres have emerged and become massively popular. Free-to-play is reaching across more platforms and geographies. Subscriptions in cloud gaming are strong future growth opportunities. And above all else, great content continues to be the lifeline of our industry.

As Blake and I have talked about, we're experiencing a difficult second half of FY '19. We're disappointed with our underperformance. We are confident in our overall strategy, but we are making deliberate changes to our organization, our operational processes and our creative focus to address our challenges. Importantly, we are confident and excited by our incredible portfolio of strong brands, our talented teams, our commitment to live services and our pipeline of new games. We have a slate of EA SPORTS titles that have performed well even in light of increased competition this year. FIFA, in particular, continues to demonstrate its leadership as the top title in the industry, and it is growing as a business. We'll build on the continued success of our EA SPORTS portfolio with significant innovation and new ways to play in FY '20.

We have our deepest lineup of new IP in more than a decade. We're very excited about the opportunities we have with Apex Legends, Anthem and Star Wars Jedi: Fallen Order in the year ahead. We're also set to bring new games and live services content to some of our fan-favorite franchises. In FY '20, we'll have new games for our Need for Speed and PvZ shooter fans. We plan to bring a lot of great new content to the passionate and growing player base in The Sims 4, and we're focused on exciting more Battlefield players with upcoming additions to Battlefield V. We'll also double down on live services in our top mobile franchises while pushing forward with new projects and taking the necessary time to set them up for success.

Our belief remains strong that the combination of subscriptions and streaming will be transformative to the future of gaming, and we are well positioned for that evolution. Earlier this fiscal year, we added a new front-line tier to our subscription offerings for PC players. And in the year ahead, we plan to offer a subscription service on another major platform. We have a lot of great content coming in FY '20, and we're excited for more players to experience it through our subscription programs across more platforms. Our industry is growing, and we know expectations for EA are high. As we take action to address our challenges, our underlying business is strong, our pipeline is robust, our teams have amazing talent, and we're confident for the future.

With that, Blake and I will take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Mike Ng from Goldman Sachs.

Michael Ng - *Goldman Sachs Group Inc., Research Division - Research Analyst*

I have 2, just one for Blake and one for Andrew. Blake, you mentioned that given the more tempered view on growth for next year, EA is making some hard choices out of investments that you're making. You discussed some of the things that you're focused on, but I was just wondering if you could give us a little bit more color on areas of the business that you may be pulling back on? And then for Andrew, I was just wondering if you could talk a little bit more about the premium Battlefield title for next year? It seems that in fiscal '20, Respawn will now be operating or launching 3 titles between that one, Apex and Star Wars. Can you just talk about Respawn's capacity for that?

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

So on the investment side, our view is we need to constantly be looking at the performance of all of our different lines of business. And where those lines aren't performing as well as we want, we are focused on making some changes. We are focusing also on the pace of some of the

investments. We're not changing our strategy. We're still following the notion that we're building a subscription. And in a network world that's prepared for both the existing platforms and future platforms, like streaming, it's just a question of the pace. We want to make sure that we're very focused on the most important thing, which is great content. And without great content, delivery models like subscription or platforms like streaming don't mean very much. So I think about our approach as trying to double down on making sure we're building and delivering great content and great live services experiences across console, PC and mobile.

Andrew Wilson - *Electronic Arts Inc. - CEO & Director*

On the second point, you mentioned Battlefield. I think it was Titanfall that you're referencing. We have continued to invest in Respawn and with Respawn since the acquisition. They now have 2 fully staffed teams: one focused on the shooter genre and one focused on action adventure. They also have the benefit of a lot of EA's scale and central resources. Groups like our EA digital platform; our content development services, which is kind of content and Q&A; security publishing, et cetera. And while I don't have more to share on the particulars of what is coming for Titanfall, what I would say is Respawn are a tremendously creative team. They always anticipated that Apex Legends would be a spectacular game in the Battle Royale genre and that they would use that as a ramp point to continue to innovate and deliver a truly creative take on what Titanfall is in the premium context later on the year.

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

And I'll add to that, that, first, just looking at Apex Legends should give you a context of what a superior set of game developers sit in Respawn. This team of people is exceptional in the type of game they built and the innovative level of that game. And second, you'll start to see, in the next few months, glimpses of the Star Wars game. And I think you'll be blown away by what you see. We played 20-plus minutes of it last week, and it is exceptional in terms of its level of polished depth and living inside of the Star Wars world as a Jedi. I think people will be blown away by it.

Operator

Your next question comes from Justin Post from Bank of America Merrill Lynch.

Justin Post - *BofA Merrill Lynch, Research Division - MD*

When we think about Battlefield 2 years ago, it was a runaway hit and wasn't very competitive. And then this year, obviously, Battlefield V missed. Just can you talk about a little bit how much you attribute to really the competitive dynamics versus game execution? And how can EA improve execution on its titles going forward so that you don't have misses like the last 2 years?

Andrew Wilson - *Electronic Arts Inc. - CEO & Director*

I think it's a really good question. And I think that there is certainly an element of the market and the competitive nature of the market that amplified or magnified some of the challenges we've had. If I think about Battlefield V more holistically, I think we did not do a great job of building momentum early in the project. And I think about this not just in the context of development but I think about this in the context of our broader execution against the entire campaign. Our launch didn't resonate as strongly as we would've liked it to with players, and we were never truly able to catch up. And as our competitors continued to build momentum, whether that was Fortnite or Red Dead Redemption 2 or Call of Duty, we continued to kind of stall from where we needed to be. I think you combine that with the move of the title -- again, I think that we made the right decision to move the title in service of the quality of the game. And on balance, those that bought the game really enjoyed it, and the game was better for that move. But the combination of a poor start in our marketing campaign together with, what I think, was a longer development cycle that put us into a more competitive window and the amplification of that competitive window against some of those underperformance factors is how it resulted in Battlefield. What I can tell you is we've gone back, and we just completed our global publishing and marketing meeting for the year ahead just last week. And part of what we have done there is having far more real conversations early on, getting to the center of not just the production cycle of the game but what is the creative center and how will we bring that game to market. And you should expect that we will be

more innovative and more creative around both our marketing campaigns and how we bring games to market and more diligent in our operation against execution of the project plans around development of video games on a go-forward basis. It's something we're taking very seriously across the full landscape of development.

Operator

Your next question comes from Eric Handler from MKM Partners.

Eric Owen Handler - *MKM Partners LLC, Research Division - MD, Sector Head & Senior Analyst*

And just a follow-up to Justin's, I think he brought up some good points. How big of an issue do you see with marketing? And do significant changes need to be made here as you think about particularly marketing in the holiday quarter? We saw you had issues several years back with Titanfall 2, despite the fact that was a good game from a ratings perspective. You had these ratings for Battlefield V. And maybe you could talk about what needs to change with marketing. Or is it just date selection? How are things going to evolve there? And then as a follow-up, maybe you could talk about -- your mobile strategy in the past has been more of choosing to go for singles and doubles. And in this environment, can singles and doubles still work? Or do you have to go for the big home runs there?

Andrew Wilson - *Electronic Arts Inc. - CEO & Director*

Okay, there's a lot in there. Let me start with marketing. I think what you have seen from us is some tremendous marketing across our portfolio. It is how FIFA was able to rise in the way it did through the year. It's how our sports franchises, even in the face of stiff competition, still performed well. What I think -- when we go back and analyze what happened with Battlefield V and Titanfall 2, I think we failed to come to a true creative center of a campaign that was compelling for players, and we spent too long getting to that point. And by the time we got to launch, when we didn't have that creative center for the campaign, we had lost ground against our competitors. Our holiday quarter will always be competitive. In the past, we have competed very well. What we have seen this year is that we had some big misses early on, and they gained momentum in terms of the impact ahead of our business over time. As I just talked about with Justin's question, what we have done is gone back and built a far more robust process around how we find our creative center. It's called the reason to play. And Chris Bruzzo, our CMO, and his entire organization have restructured the entire marketing conversation from the inception of game development through full campaign. And we expect that, that will put us in a significantly better position on a go-forward basis. In the context of mobile, again, I think what you heard from us in the prepared remarks is mobile is a tremendously powerful marketplace, it's a growing marketplace, but we are seeing that it's getting harder and harder to break into that market. What we are seeing is that many, many thousands of games are launching and that only a few are finding success. And even great games are failing to break through. What we're also seeing, however, is that 2 things are becoming true. One is that additional focus on existing live titles can deliver tremendous profitability over time, and you should expect that we will do that. We're also seeing that patience is important. Some of our competitors are having their games in the market for 12 months or 18 months and building and adjusting to drive growth in that space, and you should expect that from us also. But what you did hear from us is that we'll be focusing our best teams on the big opportunities because, in order to break through, gamers expect not just a really big brand, not just innovation in game play but they expect a really big game play proposition. And part of what we'll be doing on a go-forward basis is focusing on those much bigger opportunities.

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

Yes, I'll just remind people that sports, like it is in our core console and PC business, is a critical component of long-term success in mobile. I think life-to-date, we're -- we've generated over $1 billion in the sports business. And the beauty of that business is evergreen. It restarts every year, and we're trying to continue to grow that with FIFA, with Madden, with NBA around the globe. And that's the focus that we're going to continue to step into. And trust we don't step up, thinking we're going to hit a single or a double. We're always focused on trying to hit home runs, and we'll continue to do that.

Operator

Your next question comes from Andrew Uerkwitz from Oppenheimer.

Andrew Paul Uerkwitz - *Oppenheimer & Co. Inc., Research Division - Executive Director and Senior Analyst*

Can you talk about how cross-play, cross-progress fits into the spread across the portfolio? And then in particular, do you see it limiting either Apex or Anthem's potential? And then secondly, Andrew's talked a lot about increased competition. One way to kind of solve increased competition is M&A. So could you talk about any updated thoughts on M&A?

Andrew Wilson - *Electronic Arts Inc. - CEO & Director*

So again, we think the cross-play, cross-progress is going to be a very important part of our future, and you should anticipate that we will be doing more in that space. What our information would suggest to us is that there isn't a tremendous amount of play across devices but that overall liquidity in any gaming community is a good and positive thing, even if it's only a few people or a small portion of the community that utilizes that. We absolutely are looking at that in the context of Apex, and we'll be looking at that across our portfolio over time. And we think about franchises with tremendously live communities, like FIFA, and think that they would absolutely benefit from cross-play and cross-progress as more and more people come into these big communities.

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

And on the M&A front, we're always looking at virtually every opportunity that comes through. I think Respawn presents an example of how it's worked extremely well for us. We've had a great integration with their company, and we're obviously seeing the fruits of that now and will continue through the next year and longer. Our view is continue to stay close to everyone, be in dialogue. So if there is opportunities that come up, we're looking at those opportunities. We're always going to be focused on creating value for shareholders in our M&A discussions. And sometimes private companies' expectations on valuation don't match the public realities of the marketplace, particularly in this last year as public market valuations have changed dramatically for ourselves and others in the industry, that hasn't necessarily been reflected yet in some of the private market valuations. But we think over time, that might, and we want to make sure we're looking for some of the great properties that we know are out there, and we're going to continue to do that. And part of the reason we're continuing to maintain the cash balance and the capital structure that we have is to be in a position to be at the table for any of those great properties that might come to market in the future.

Operator

Your next question comes from Stephen Ju from Crédit Suisse.

Stephen D. Ju - *Crédit Suisse AG, Research Division - Director*

I guess, Andrew, bigger picture, Google is working on a streaming platform. Amazon also seems to be doing the same. I would presume Apple probably has ambitions here as well. So seems like you as a content producer will have a lot more distribution outlets and optionalities from who will be wanting your content on their platform. So can you give us a perspective on how your distribution cost or, I guess, the platform royalties may change over time and how quickly that may change? And Blake, can you give us a little bit more color on where you are in transitioning the FIFA Online 3 users to FIFA Online 4, where the status is that -- where the status of that is in between Korea and China as well as what may be the latest feedback from your distribution partner in regards to the regulatory environment in China?

Andrew Wilson - *Electronic Arts Inc. - CEO & Director*

Okay, I will take the first one. You're right, there are a number of people or a number of entities working on streaming technology. We believe that is a good thing. To the extent that we can massively increase the total addressable market of gamers and get to a point where 2.5 billion or 3 billion gamers exist, and they currently play on mobile devices, can play on almost every device they own, we think that is a great thing. We also have technology that we have been developing internally that we think will actually be able to accelerate that for our partners and accelerate our ability to reach more customers through cloud services and cloud gaming. In terms of kind of platform royalties, I think it's too early to tell. I think what we're seeing right now with some of the players in the marketplace is it seems to be a competition for who can charge content created with less money to distribute their content. I don't know where that nets out. I think that will be good for us over time. I also think that increased total addressable market, a potential for a more lucrative platform royalty structure, combined with our ability to offer a robust subscription offering to many, many hundreds of millions or even billions of players over time, represents a very, very big and strong opportunity for our future.

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

On Online 3 to Online 4, I think Korea is, as Andrew mentioned, moving people faster from 3 into 4 and starting to grow 4. China, we're being more cautious along with our partner, Tencent. But some of the regulatory hurdles are starting to get cleared across the industry, which I think will help us speed up that transition from 3 into 4. I was hoping that it would be fully transitioned by the end of this quarter. And clearly, if not, we think it's probably going to continue at least through the next quarter or maybe into early next year. But we do view that the long-term play there is a positive one, particularly with the growth of soccer in that marketplace.

Stephen D. Ju - *Crédit Suisse AG, Research Division - Director*

Okay. So Blake, just as a clarification, when you talk about next year, a clarification, it's your fiscal year, not calendar?

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

Yes, fiscal year. Yes, exactly. So yes, we'll give you more update when we talk next quarter. But my hope is it's not a headwind for us next year and actually becomes a tailwind for us. Fiscal year. Thanks.

Operator

Your next question comes from Jeff Cohen from Stephens.

Jeffrey A. Cohen - *Stephens Inc., Research Division - Analyst*

Could you talk a little bit about what kind of operating margins we could see on the revenue that you expect from Apex Legends versus the revenue that you get from a normal upfront game sale? I would think it should be higher given that it's all digital. And then if you guys could give us some guidance in terms of maybe how to think about sizing the potential for that game, that will be great as well.

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

Yes, I mean both of those are pretty hard after 1 day, only because we don't have a lot of areas to look to, to actually peg. And it's a different business than, say, our largest live services, Ultimate Team. Ultimate Team, you have people who are predisposed to spend because they bought the base game coming in. And so the payer ratios, I think as we've talked about, are much higher than what you would see in a pure free-to-play game like a mobile game where they're in single digits. Our hope is that, obviously, we have high engagement and high number of users. And the combination of those 2 things should drive what we believe is very profitable revenue. You are correct, having all-digital and having that come through, either directly on our origin platform where there's no platform fees or through third-party platforms, will help depend on what the ultimate profitability

is. But I think overall, it should be very strong. It's just hard for us to size that market. More to come on that over the next couple of months as we get closer to doing guidance for next year. As I said, we put very little revenue into this quarter for it because we just didn't know. But by the time we give guidance in May, we'll have a much better sense of what we think that will be based on the number of users coming in and then those users that are spending across the live services that we'll continue to roll out.

Andrew Wilson - *Electronic Arts Inc. - CEO & Director*

And while -- sorry, while it is early, what I can say is that in the first 24 hours, we've had over 2.5 million unique users trending fast towards 3 million unique users and nearly 600,000 peak and current users kind of in the middle of a Tuesday. So it's very early, but the response to the game has been very, very strong. We've been the #1 viewed game on Twitch since launch, and player sentiment seems to be very, very high right now.

Jeffrey A. Cohen - *Stephens Inc., Research Division - Analyst*

Yes, the game definitely seems to be off to a strong start. Would that revenue run through the live services line in the model?

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

Most likely, yes. So yes, you'll probably see, obviously, some growth there next year, if it's additive and successful, which we think it will be. I think, as Andrew was saying, we're very excited about it. It's just so early. We don't want to put too much into the model yet. And it's really not built -- when I gave that guidance earlier on, low single digit -- or mid to low single digits for the total business, that doesn't really anticipate a huge number for our lives service business yet.

Operator

Your next question comes from Ben Schachter from Macquarie.

Benjamin Ari Schachter - *Macquarie Research - Head of TMET Research*

Blake, I wonder if you could just talk about the use of cash a bit more. You talked about M&A. But given where the stock is, should we think you'd be more active in buybacks? And then Andrew, maybe you could talk a bit about China. Is FIFA really the only opportunity for you guys there? Or should there be anything else? And then just any broad comments on Fortnite and how that's impacted you guys and the industry's holiday.

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

Yes, I'll start, Ben, on the buybacks. I mean we're 2/3 of the -- or 3/4 of the way through the first year of our $2.4 billion program, which is a double of the last program. We doubled our pace of buybacks, and we're tracking to that. We will, as we have done I think consistently over the last few years, review the buyback with our Board at the end of our fiscal year and determine if we should continue on the existing buyback or if we should increase it. And that will be based on what our outlook is for the future as well as the cash flow generation. We spend less time focused on what the current stock price is. We want to be in the market every single day, which we are, and track to the buyback that we made a commitment to, to the Street. And we'll look at reviewing that each quarter as the -- or each year as we -- and near the end of the fiscal year. So more to come when we give guidance again.

Andrew Wilson - *Electronic Arts Inc. - CEO & Director*

And on China, I think as everyone would acknowledge, China is a very particular marketplace. We certainly see robust growth opportunity for FIFA. But we also know -- we did a small partnership deal around the Command & Conquer mobile game recently that is performing very, very well in

China. We know that the Plants vs. Zombies brand is very strong in China as is the Need for Speed brand. And as that market continues to evolve and mature, we're seeing that brands like FIFA, brands like Need for Speed, Plants vs. Zombies, Command & Conquer and, potentially, The Sims, may have tremendous appeal there and are working through plans on how we execute against that over time.

Operator

Your next question comes from Drew Crum from Stifel.

Andrew Edward Crum - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP*

Can you talk about your expectations for live services going forward? Was fiscal 3Q the bottom? And would you expect to see improvement in the out quarters? And if so, what are some of the drivers for improvement? And I guess separately on Anthem, you were pretty upbeat coming out of the last earnings report. Being 3 weeks away from the launch, having gone through the beta testing, have your expectations for the launch changed in any way? And if so, how and why?

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

Yes, so on live services, remember, it's a collection of items. As we mentioned, FIFA Ultimate Team was -- had its largest quarter in history in Q3, Madden's continued to grow strong. The counter is the offset in Battlefield 1 live services, which are dying down, as the tail of that live service is coming down. And we have yet to ramp up Battlefield V live services. And I don't -- as I mentioned, we don't have a large number in there for monetization on Battlefield or Anthem live services because we just don't know yet how those will perform. We're cautious that we want to not put too much revenue in until we really see that revenue, so hard to say now. Our goal is to continue to grow live services, obviously. And we think Ultimate Team still has a lot of room to grow. And some of the things that we're doing with both FIFA and Madden for next year should help continue to drive Ultimate Team growth in those 2 products as well as, and I just mentioned, possibly some upside from Apex and Battlefield V and Anthem. In terms of Anthem outlook, I think I mentioned 5 million to 6 million units, which is consistent with how we thought about it last quarter, and we're comfortable with that based on what we're seeing in the outcome of the demo. Both demos, a lot of excitement around it, a lot of interest. People are realizing it is a game that's unlike any other game they've ever played. The opportunity to work with different suits, to fly, to go into the water, I mean it is fabulous mechanics as you're playing the game. And people are enjoying it quite a bit. And so more to come as we learn more, but we think there's a great opportunity not just this year for that game but that should sell well for a long period of time as we add more content through the live service plans.

Operator

Your next question comes from Gerrick Johnson from BMO Capital Markets.

Gerrick Luke Johnson - *BMO Capital Markets Equity Research - Senior Toys and Leisure Analyst*

I was hoping that you could talk about the in-game monetization strategies to be employed in Apex. Also, any metrics that you can give us on Origin Access Premier to help understand your progress there?

Andrew Wilson - *Electronic Arts Inc. - CEO & Director*

So again, Apex is a free-to-play game. And so many players may choose to continue to play all the way through the game and earn in-game currency so that they can level up and buy new unique cosmetic items for their character or in their world. There's going to be a couple of different monetization opportunities inside of Apex. There will be a revolving direct purchase option that will allow you to buy cosmetic items and, at times, buy new legends. None of those items will give you an advancement in play, it's not a play-to-win mechanic. It's really about differentiating game play and

differentiating how you look in a world of a big and robust community. In addition to that, there'll be Apex packs, which is similar to a loot box mechanic where, should you not wish to purchase direct, you can go in and buy items as part of the loot box mechanic. There will be no repeats in that. So there's a whole system to ensure that you always get something of value. And again, all will be cosmetic. And in places, you will get things through the loot box mechanic that are at a cheaper rate than buying them through direct purchase. The Respawn team have been very, very thoughtful around this. They've looked at a lot of great monetization strategies throughout the game industry. They've come at this with the opportunity to allow players to be able to play the entire game for free, if they so choose; to direct purchase, to get the things directly that they want, if they so choose; or to use the loot box mechanic to experience that surprise and delight with built-in buffers and backups to ensure that players always receive something of value and that players aren't getting a whole bunch of duplicates through that system. I'm actually really proud of what the team has done. And I think what we're seeing from early feedback from players is that they're on to something really special that serves a wide variety of uses. Again, we expect that many, many -- tens, maybe at some point, hundreds of millions of people will have played this game, and it was important for them to think through it very deeply to arrive at where they got to.

Operator

Your next question comes from Mike Hickey from Benchmark.

Michael Joseph Hickey - *The Benchmark Company, LLC, Research Division - Research Analyst*

First, I guess on Apex Legends. I guess congrats, what an awesome reveal, it's really hard to be surprised. And your marketing efforts there were -- from Respawn were definitely exceptional, buzz is high. I guess it looks like Respawn also had a fair amount of work done on the content roadmap. Hopefully, that will sustain some engagement. But I'm curious how you think maybe longer-term in extensions, mobile, Asia, esports related to Apex in the Battle Royale genre and also curious if you feel that there might be any tension between the Battlefield Battle Royale experience and the one that you just served with Apex Legends.

Andrew Wilson - *Electronic Arts Inc. - CEO & Director*

Great questions. First is that Apex Legends is being built from the ground up with a view that it has the potential to engage and entertain hundreds of millions of players. And when you look at the game -- and I was watching it being streamed early today, and it's mesmerizing to watch. When you watch great players like Ninja playing the game, it's pretty special and exciting to watch and one of the more exciting games I've ever had the fortune of viewing. And so you can see very clearly, as you watch and you play the game that there are going to be opportunities to take the game in different directions over time. Esports will almost certainly be part of that. Additional game modes, the impact of additional legends over time, great new content will have an impact. As I've said earlier, we are looking at how to take the game to mobile and cross-play over time. And I also expect that this game will have tremendous value in Asia, and we're in conversations about that. Some of those conversations, as you might guess are new. We took a very deliberate strategy around how to launch this game. Again, in a world where we have not executed as well on some things through the past 6 months as I would have liked, I think that the development and marketing teams executed against this extraordinarily well, and surprised a global industry. The development team was very cautious about building a completely different game and wanted to make sure, by the time they launch this game into the marketplace, it would surprise and delight players. They're going to play it from day 1. Our marketing team were also very conscious that when you start talking about the innovative nature of this game, the core play, the sword play, the in-game mechanics, the communication system, all the things that Respawn has done, that we wanted to be very careful not to tip our hat or show our hand to the competition, we're able to come out with a truly innovative and creative game. And we also knew that to break into what is a very competitive marketplace, we had to do something truly innovative with the launch. I think the teams have done a tremendous job there. And you should expect that we have very big and robust plans for this game and that we'll branch in a lot of different directions over time.

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

Yes, Vince mentioned today in a tweet that they are planning on a premium product. We mentioned that today as well, later in our fiscal '20, that continues to evolve Titanfall universe. And I think there is a lot of exciting things on the roadmap that you'll learn more about in the coming months.

Andrew Wilson - *Electronic Arts Inc. - CEO & Director*

And to the second part of your question around Battlefield, Firestorm. We think that these, while they sit inside the Battle Royale kind of genre, are 2 very different types of experiences. What we have seen is the community who want to play these types of games, it's hundreds of millions of people strong. We think there is an opportunity to deliver the fast-paced play that is Apex Legends and where that game goes to a big part of the community. And that also, the strategic play, the vehicle play, the things that are unique to a Battlefield Battle Royale mode will offer a differentiation of play for a different part of that community. And at some level, there may also be some crossover. But given the size of the community, given the very different types of game play even inside the Battle Royale genre, we believe those 2 modes can fit very well together in the community.

Operator

Your last question comes from Tim O'Shea from Jefferies.

Timothy Larkin O'Shea - *Jefferies LLC, Research Division - Equity Analyst*

I just want to hear your thoughts on the pros and cons of free-to-play and how full-priced games can perform in an environment where AAA content is given away for free. You obviously mentioned the intense competition. And looking at the fiscal '19 outlook for packaged goods, which seems like a decent proxy for full price, it does imply a sharp step-down here. And just maybe a follow-up, what do you think is the right mix of business models going forward? We've heard you articulate your vision around streaming, games being streamed from the cloud. We've heard you articulate a vision around subscriptions and now you had surprised us with this big free-to-play game.

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

Yes, I think, remember, the packaged good decline is really just that digital shift and the shift towards more and more parts of our business having live services. I think the issue around free-to-play is, to make a free-to-play game work well, you have to have a huge audience. We believe Apex has the potential of that. But there are many games out there that sell anywhere between 3 million and 7 million or 8 million units that are very successful games, but those audiences aren't big enough to support a free-to-play game like you see in mobile, for example. Typical mobile games, we see 80 million, 90 million downloads of a client. That's how you make a mobile game work and a free-to-play economics work. We always believe there's going to be multiple models, there has been for many years. Asia has been primarily free-to-play but big games and big marketplaces. But as you look at some of the more successful action-oriented games of this past year, like God of War or Spider-Man, those are games that most likely aren't free-to-play style games because they're not big enough to sustain those types of economics. And we think people will want to consume games in different ways: some through purchase, some through subscription, some through streaming purchase or streaming subscription and some through free-to-play models across many different platforms. So we think it's a great way to continue to grow the industry. We think Fortnite helped grow the industry and other free-to-play games, and this is an opportunity for us to try and participate in it.

And I hope we get a chance to talk to everybody in the coming days, and I appreciate everybody's time today. We'll talk soon. Thank you.

Andrew Wilson - *Electronic Arts Inc. - CEO & Director*

Thank you.

Operator

That concludes today's conference call. You may now disconnect.